

JIN-YONG CAI
Executive Vice President & CEO

January 6, 2014

Dear Civil Society Stakeholders,

Thank you for your letter expressing your concerns related to IFC Management's response to the CAO Audit of IFC's financial investments.

IFC's work through financial intermediaries provides much-needed access to finance for millions of individuals and micro, small, and medium enterprises that we would never be able to reach directly. It builds more robust and inclusive financial institutions that help economies to grow and withstand shocks. This work is an essential part of our mission to end extreme poverty and build shared prosperity.

We believe we have governance frameworks and procedures that are designed to maximize development outcomes while seeking to minimize risks. As we have indicated during our consultations and in IFC Management's response to the Audit, our approach to managing the environmental and social (E&S) risks of our investments with financial institutions is a management systems approach, which is recognized as market best practice and has been adopted by the development finance institutions and private sector. We try to ensure that our clients are willing, capable, and adequately prepared to assess and mitigate the E&S risks in their portfolios, as they develop and change over time. The audit report shows a 90 percent compliance rate, and a relatively small percentage of our financial intermediary investments are in high risk areas.

As you know, IFC has been actively engaged with you for the last two years on this subject, and your inputs significantly influenced the Action Plan that IFC developed in response to the CAO report. The Action Plan (found at <http://www.cao-ombudsman.org/documents/IFCpresentationforCODE-ESRMforFIs-final.pdf>) was presented to and approved by the Committee on Development Effectiveness (CODE) of the WBG Board in September 2013. A cornerstone of the Action Plan is our commitment to continual improvement, by evolving our practice based on experience and feedback, allowing for faster reaction to changing circumstances.

We also recognize that in order to adequately serve our clients, and undertake more transformational projects, we need to scale up the assistance or capacity building we provide to our clients to help them manage those risks. That is why our Action Plan also focuses on scaling up our advisory work with FI clients. To that end, we are in the process of more closely integrating our Access to Finance Advisory and Financial Markets departments in order to provide more comprehensive services to our clients and to achieve better outcomes.

IFC updated its Sustainability framework in 2012 through an extensive consultation process, and more recently developed the Action plan in response to the findings of the CAO Audit. We would like to focus on, refine and review the implementation of what we have already committed to, before we consider any further changes to our policy or strategy. Specifically, we would like to be able to implement the Action Plan that we committed to, while we remain engaged with you and seek your feedback and inputs. We will continue to engage with you in that spirit.

Sincerely,

A handwritten signature in black ink, appearing to read "Jin-Yong Cai". The signature is fluid and cursive, with the first name "Jin" and last name "Cai" clearly distinguishable.

Jin-Yong Cai
Executive Vice President & CEO
International Finance Corporation